



TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

Number: **201338053**
Release Date: 9/20/2013

Date: June 27, 2013

Contact Person:

Identification Number:

Contact Number:

Employer Identification Number:

Form Required To Be Filed:

Tax Years:

UIL: 501.04-00; 501.04-06

Dear :

This is our final determination that you do not qualify for exemption from Federal income tax as an organization described in Internal Revenue Code section 501(c)(3). Recently, we sent you a letter in response to your application that proposed an adverse determination. The letter explained the facts, law and rationale, and gave you 30 days to file a protest. Since we did not receive a protest within the requisite 30 days, the proposed adverse determination is now final.

You must file Federal income tax returns on the form and for the years listed above within 30 days of this letter, unless you request an extension of time to file.

We will make this letter and our proposed adverse determination letter available for public inspection under Code section 6110, after deleting certain identifying information. Please read the enclosed Notice 437, *Notice of Intention to Disclose*, and review the two attached letters that show our proposed deletions. If you disagree with our proposed deletions, you should follow the instructions in Notice 437. If you agree with our deletions, you do not need to take any further action.

If you have any questions about this letter, please contact the person whose name and telephone number are shown in the heading of this letter. If you have any questions about your Federal income tax status and responsibilities, please contact IRS Customer Service at

Letter 4040 (CG) (11-2005)
Catalog Number 47635Z

1-800-829-1040 or the IRS Customer Service number for businesses, 1-800-829-4933. The IRS Customer Service number for people with hearing impairments is 1-800-829-4059.

Sincerely,

Kenneth Corbin
Acting Director, Exempt Organizations
Rulings & Agreements

Enclosure
Notice 437
Redacted Proposed Adverse Determination Letter
Redacted Final Adverse Determination Letter

Letter 4040 (CG) (11-2005)
Catalog Number 47635Z



TAX EXEMPT AND
GOVERNMENT ENTITIES
DIVISION

DEPARTMENT OF THE TREASURY
INTERNAL REVENUE SERVICE
WASHINGTON, D.C. 20224

Date: May 2, 2013

Contact Person:

Identification Number:

Contact Number:

FAX Number:

Employer Identification Number:

Legend:

B = Date

C = State

D = Name

F = Company

M dollars = \$

UIL Number:

501.04-00

501.04-06

Dear :

We have considered your application for recognition of exemption from federal income tax under Internal Revenue Code (Code) section 501(a). Based on the information provided, we have concluded that you do not qualify for exemption under section 501(c)(4) of the Code. The basis for our conclusion is set forth below.

Issues:

Do you qualify for tax exemption under § 501(c)(4) of the Code? You do not for the reasons stated below.

Facts:

You were incorporated on B (date) under the nonprofit corporation laws of the C (state).

Your stated purpose is to improve the economy and increase available business opportunities in the surrounding area.

To accomplish your purpose, you intend "to assist entrepreneurs and businesses in identifying potential sources of early stage capital." The entrepreneurs may be

university researchers, local entrepreneurs, or local existing businesses that seek to expand. You believe this will diversify the area economy and create needed jobs.

Your promotional materials state you connect "accredited investors with investment opportunities, and connect 'entrepreneurial' companies in start up or expansion phase with the accredited D investors."

Specifically,

1. Applicant entrepreneurs complete a questionnaire and a business plan. You recommend that the business plan be submitted to the F Center for review. If the entrepreneur needs assistance with preparing the business plan, you suggest utilizing area educational resources. When submitted, the business plan is prescreened by a committee.
2. Interested investors complete an application. You prescreen the investors to insure they are accredited under US security laws and have an interest in investing in high risk deals in exchange for a stake in a company.
3. After member entrepreneurs are prescreened and selected, you arrange a dinner meeting where selected member entrepreneurs are introduced to a small group of investor members. The investor members hear two 15 minute presentations with equal time set aside for questions and answers.
4. After the presentations, you provide no further assistance to entrepreneurs or investors.

You will not participate in any discussions or negotiations. After the introductory meetings or presentations, potential D investors may contact the entrepreneurs directly to negotiate the amount of funding needed as start up capital in exchange for an ownership interest.

Your financial support will be derived from annual membership fees of M dollars paid by entrepreneurs and D investors who utilize your services and possible grants from other parties.

You have not claimed that your programs are operated in a depressed or blighted area.

Law:

Section 501(c)(4) of the Code states that civic leagues or organizations not organized for profit, but operated exclusively for the promotion of social welfare, will be recognized as exempt under subsection 501(a) if no part of the net earnings of such entities inures to the benefit of any private shareholder or individual.

Section 1.501(c)(4)-2 of the Income Tax Regulations states that an organization will be regarded as operating exclusively for the promotion of social welfare if it is primarily engaged in promoting in some way the common good and general welfare of the people of the community because it is operated primarily to bring about civic betterments and social improvements.

Section 1.501(c)(4)-1(a) of the regulations states that an organization may be exempt as an organization described in Section 501(c)(4) if it is not organized or operated for profit and is operated exclusively for the promotion of social welfare. The promotion of social welfare includes being primarily engaged in promoting in some way the common good and general welfare of the people of the community.

Revenue Ruling 54-394, 1954-2 C B 131 holds that an organization that provides antenna service only to its members to enable them to receive television is not exempt under section 501(c)(4) of the Code. The court held that when an organization's only activity is to provide television reception on a cooperative basis to its members, who contract and pay for such services, such organization is held to operate for the benefit of its members rather than for the promotion of the welfare of mankind.

Rev. Rul. 55-716, 1955-2 C.B. 263 found an organization formed for the purpose of furnishing television antenna service to its members for a fee is not entitled to exemption from federal income tax under section 501(c)(7) of the Internal Revenue Code of 1954 as a club organized exclusively for pleasure, recreation, and other nonprofitable purposes. Furthermore, there are no other provisions of law under which such an organization may be held to be exempt from federal income tax.

Revenue Ruling 57-297-1957-2 C.B. 307 determined that a corporation organized for the purpose of rehabilitating unemployed persons over a stated age, whose activities consist of educating the general public in the special qualifications of persons over such age, of combating prejudice against employment of such persons, and of securing permanent or temporary employment for its members is not entitled to exemption from federal income tax as an organization described in section 501(c)(3) of the Internal Revenue Code of 1954. However, the court held that the corporation may properly be classified as a civic organization not organized for profit but operated exclusively for the promotion of social welfare and is exempt from federal income tax as an organization described in section 501(c)(4) of the Internal Revenue Code of 1954.

Rev. Rul. 62-167, 1962-2 C.B. 142, held an antenna service that provides signals to any television receiver in the community is exempt under section 501(c)(4) of the Code. The court held that since it benefits the community as a whole rather than just the members, exemption under section 501(c)(4) of the Code is granted.

Revenue Ruling 64-187, 1964-1 CB 187 found a nonprofit corporation organized to aid and promote the purposes of the Area Redevelopment Act, Public Law 87-27, by providing funds through loans to purchase or develop land and facilities to alleviate

unemployment in areas classified as "redevelopment areas" under the Act, is exempt from federal income tax under section 501(c)(4) of the Internal Revenue Code of 1954 as a civic league.

Revenue Ruling 67-294, 1967-2 CB 193 A nonprofit organization created to make loans to business entities as an inducement to locate in an economically depressed area in order to alleviate unemployment may be exempt from federal income tax under section 501(c)(4) of the Internal Revenue Code of 1954. It was found in this revenue ruling that the organization's activities were to encourage industry to settle in an economically depressed area, which helps alleviate unemployment and brings about civic betterment and social improvement and is entitled to exemption under section 501(c)(4) of the Code.

In Commissioner v. Lake Forest, Inc., 305 F. 2d 814 (1962), it was held that a corporation that provided housing on a cooperative basis lacked the necessary requirements of an organization described in section 501(c)(4) of the Code. The court held the operation to be a private self-help enterprise with only an incidental benefit to the community as a whole.

Analysis of Law:

Code §501(c)(4) and the related regulations clearly define social welfare activities as ones which promote the common good and general welfare of the people in the community. You are not operated primarily for the promotion of social welfare as described in the regulations because your primary activities consist of connecting member entrepreneurs with member investors. The entrepreneurs gain financial support to start or expand for profit businesses. The investors take the risk in return for ownership interests in the entrepreneurs' business. In short, your members participate in your programs to produce a profit for their own benefit.

Revenue Rulings 62-167, 54-394 and 55-716 illustrate activities that provide community benefit verses benefits restricted to dues paying members. The organization described in this Revenue Ruling 62-167 qualifies for 501(c)(4) recognition when it provides television signals via a system accessible to everyone in the community. In contrast, the organizations described in Revenue Rulings 54-394 and 55-716 were not qualified under any §501(c) subsection because their benefits were available only to members who contract and pay fees for the service. Like these organizations, your services are restricted to entrepreneurs and investors who pay annual membership dues. Benefit to the community as a whole is incidental to your primary activity, connecting investors with entrepreneurs.

You are similar to the organization in Commissioner v. Lake Forest Inc. because you do not offer services or programs for the direct betterment of the community. Lake Forrest, Inc reserves its services to members who pay an annual fee. You, too, restrict your

services to member entrepreneurs and investors who are required to pay membership fees.

The organizations described in Revenue Rulings 67-294 and 64-187 were granted 501(c)(4) status because their primary activities were making loans to encourage industries to locate in economically depressed areas. You do not serve an economically depressed area or provide jobs in a community suffering from high unemployment. Even if you were located in an economically depressed area, this would not overcome the fact that your services benefit a private group of people who come together and discuss details on how to start or expand businesses to increase their own personal wealth.

Because you offer services only to fee-paying entrepreneurs and D investors, who receive services, funding, possible increased capital, and other benefits, we cannot conclude that you are operated primarily for social welfare. Instead, we have concluded that your activities benefit your member entrepreneurs and investors. Any community benefit is incidental.

Applicant's Position:

You stated that you are similar to the organizations mentioned in Revenue Ruling 57-297 and Revenue Ruling 67-294 because:

- (1) Your services are provided to private individuals in order to promote the social welfare of the area; and
- (2) Your activities indirectly promote economic development, business education and job creation in the area.

By conducting these activities, you believe that you qualify for exemption under section 501(c)(4) of the Code.

Service Response to Applicant's Position:

You are not like the organization described in Revenue Ruling 57-297 because you are not educating the public and securing employment for unemployed members. You are also distinguished from Revenue Ruling 67-294 because your activities are not promoting industry in an economically depressed area for the purposes of alleviating unemployment. The facts show your primary activities consist of connecting your member investors with member entrepreneurs. Any benefits to unemployed persons or the local economy is indirect.

Conclusion:

After careful consideration of the information submitted, we have concluded that you are not operated primarily for the common good and general welfare of the people of the

community. Therefore, you are not operating exclusively for the promotion of social welfare as described in section 501(c)(4) of the Code.

Accordingly, we hold that you do not qualify for exemption from federal income tax as a social welfare organization described in section 501(c)(4) of the Code.

You have the right to file a protest if you believe this determination is incorrect. To protest, you must submit a statement of your views and fully explain your reasoning. You must submit the statement, signed by one of your officers, within 30 days from the date of this letter.

We will consider your statement and decide if that information affects our determination. If your statement does not provide a basis to reconsider our determination, we will forward your case to our Appeals Office. You can find more information about the role of the Appeals Office in Publication 892, *How to Appeal an IRS Decision on Tax Exempt Status*.

Types of information that should be included in your protest can be found on page 1 of Publication 892, under the heading "Filing a Protest". The statement of facts must be declared true under penalties of perjury. This may be done by adding to the protest the following signed declaration:

"Under penalties of perjury, I declare that I have examined the statement of facts presented in this appeal and in any accompanying schedules and statements and, to the best of my knowledge and belief, they are true, correct, and complete."

Your protest will be considered incomplete without this statement.

If the protest is signed by your representative, a so-called substitute declaration also must be included stating that the representative prepared the protest and any accompanying documents, and personally knows (or does not know) that the statement of facts in the protest and any accompanying documents are true and correct.

An attorney, certified public accountant, or an individual enrolled to practice before the Internal Revenue Service may represent you during the appeal process. To be represented during the appeal process, you must file a proper power of attorney, Form 2848, *Power of Attorney and Declaration of Representative*, if you have not already done so. For more information about representation, see Publication 947, *Practice Before the IRS and Power of Attorney*. All forms and publications mentioned in this letter can be found at www.irs.gov, Forms and Publications. If you do not intend to protest this determination, you do not need to take any further action. If we do not hear from you within 30 days, we will issue a final adverse determination letter to you. That letter will provide information about filing tax returns and other matters.

Please send your protest statement, Form 2848 and any supporting documents to the applicable address:

Mail to:

Internal Revenue Service
EO Determinations Quality Assurance

Deliver to:

Internal Revenue Service
EO Determinations Quality Assurance

You may also fax your statement using the fax number shown in the heading of this letter. If you fax your statement, please call the person identified in the heading of this letter to confirm that he or she received your fax.

If you have any questions, please contact the person whose name and telephone number are shown in the heading of this letter.

We sent a copy of this letter to your representative as indicated in your power of attorney.

Sincerely,

Holly O. Paz
Director, Exempt Organizations
Rulings and Agreements

Enclosure: Publication 892